

# STATE CONTROLLER POLICY

## ***Advance Payments to Vendors***

A policy concerning approval requirements when state agencies and institutions are providing advance payments to vendors.

### **Background**

It is the policy of the State Controller that the state shall not make advance payments. Vendors of the state are expected to have adequate resources or working capital in order to provide goods and/or services to the state. An advance payment requires issuing a state warrant and accounting for the advance payment which incurs additional costs for the state. Further, an advance payment results in a loss of interest earnings for the state and the risk of loss of the funds advanced because of vendor bankruptcy. Should an advance payment be made, it potentially places the state in a difficult negotiating position with the vendor if the goods and/or services received are not adequate. This is because the state is unable to withhold payment pending resolution of the matter.

### **Policy**

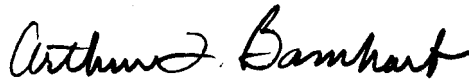
The State Controller waives the requirement of a written request from an agency or institution and SCO approval, prior to entering into an agreement that requires an advance payment in the limited instances set forth below:

1. Purchase of services for annual maintenance of computers, copiers or other office equipment. Generally, in these instances, full payment is expected annually at the beginning of the term of the agreement.
2. Grants received by the state from the federal government that are awarded by the state to a subgrantee (non-profit entities, for profit entities & governmental entities). Federal grants often require monthly or quarterly advances to subgrantees.
3. Services provided by entertainers, speakers or for seminars. For entertainers or speakers it is customary to advance an honorarium or a portion of the fee prior to the engagement date. For seminars, payment of the entire fee may be expected upon registering for the seminar.
4. Annual payments made for software license agreements. Generally, such payments are required at the beginning of the contract term.
5. Monthly payments authorized by statute or for licenses, subscriptions and for leases because the complete rights are transferred upon payment.

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6. While the need for an advance payment in an interagency agreement should be infrequent, there may be circumstances when it is warranted. In such an instance the risk of loss of funds to the state does not exist and a process exists to resolve disputes. Therefore, advances payments on interagency agreements may be made if the paying agency documents the circumstances for the need.

Advance payments may be appropriate in other instances based upon the specific facts of the situation or if it is an established business practice of the industry. In all such instances a demonstrated need must be documented to ensure the state's interests are adequately protected and the State Controller or an authorized delegate must approve the advance payment. If the amount of the advance payment requested is substantial, and/or for an extended period of time, financial statements may be requested from the vendor. Generally, an advance payment will not be approved if the contract was made as a result of a competitive solicitation and no mention of an advance payment was in the solicitation.



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Arthur L. Barnhart  
State Controller